GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:674
ANSWERED ON:28.07.2006
OUTSOURCING OF BANKING ACTIVITIES
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Will the Minister of FINANCE be pleased to state:

(a) whether the Government has decided to outsource certain activities in the banking sector including opening of accounts, issuing drafts, clearing operations etc. to private sector agencies ;

(b) if so, the details thereof ;

(c) whether the Government is aware that there is a possibility to increase the fraud activities in the public sector banks in case the banking activities are outsourced;

(d) if so,whether the Government proposes to reconsider its decision to outsource the bring activities; and

(e) if so, the details thereof?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL)

(a) & (b): Banks are outsourcing for rationalizing operational costs and accessing specialist expertise not available internally. In this regard, Reserve Bank of India (RBI) haS issued draft guidelines on outsourcing financial services by banks on 6.12.2005 for feedback. The guidelines on Outsourcing are intended to provide direction and guidance to banks to adopt sound and responsive risk management practices for effective oversight, due diligence and management of risks, which may arise from such outsourcing activities.

(c) To guard against arty anticipated fraudulent activities on account of outsourcing, the said draft guidelines provide that banks cannot outsource core management functions like, corporate planning, organization, management and control, and decision making functions like determining compliance with Know Your Customer (KYC) norms for opening deposit account, according sanction for loan and management of investment portfolio.

(d)&(e) : Do not arise.